



Third Major Report Finds State Budget Deficits

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By Andrew Welsh-Huggins

For the third time in a month, an analysis of state finances is warning that budget deficits and spending cuts are on the way.

Thirteen states say they could face shortfalls for the fiscal year that begins July 1 in most states, including large states like California and New York.

The deficits could reach at least \$23 billion, according to an analysis by the Center on Budget and Policy Priorities released Tuesday.

The report says another 11 states expect problems with their budgets over the next two years, suggesting a return to the bleak economic outlook states faced at the beginning of the decade.

"We're really teetering on the edge," said Iris Lav, the center's deputy director. "With the deficits this large already before there's actual evidence we're in a recession, that seems quite serious."

Nevada is listed among states facing a gap between revenues and spending. Nevada Gov. Jim Gibbons has ordered 4.5 percent spending cuts by state agencies to offset a looming \$440 million revenue shortfall in the current two-year budget cycle, which ends in mid-2009.

The budget center's report mirrors findings earlier this month in two other surveys, one by the National Conference of State Legislatures and the other from the country's governors and state budget officers.

The report by the National Governors' Association found that states already are spending less in the current budget year than in fiscal 2007, with leaders in a few states talking about tapping their rainy day funds to address budget shortfalls.

NCSL found that states' revenue growth is slowing and several states have either lowered their predictions for revenue or cut spending.

The wild card is whether the country enters a recession.

"We're at the early stages of some pretty serious problems and whether or not those get worse depends on what happens with the national economy," said Corina Eckl, NCSL's fiscal program director.

The policy center's review of states found:

Ten states are projecting deficits next year and three are predicting shortfalls in revenue that could lead to budget deficits. They are Florida, Kentucky and South Carolina.

Another 11 states say their budgets are likely to see holes open in their budgets next year, or in the financial year beginning July 1, 2009, including Nevada.

Fourteen of the states facing shortfalls have structural deficits, meaning revenue regularly grows more slowly than the cost of providing services. These include Illinois, Missouri and Virginia.

The report also suggests states' rainy day funds are too small. Total state balances declined to 9.6 percent of overall budgets by June 30 and are projected to decline to 6.7 percent by next year.

The policy center said a rainy day fund of 15 percent of annual spending is preferred.

"This decline is another indication of the extent to which states have used one-time resources to balance their budgets in good fiscal times," the report said. "It also leaves many states ill-prepared to face an economic slowdown."

All three reports say the crisis in the housing market is a major culprit, as weak sales reduce tax revenue from the purchase of big-ticket items like furniture, appliances and construction material.

In Florida, state economists are forecasting a \$1 billion shortfall. Florida lawmakers recently cut spending to offset an earlier \$1.1 billion shortfall.

California is addressing a deficit that could range from \$10 billion to \$14 billion, while New York budget officials are projecting about a \$4 billion deficit for the fiscal year beginning there April 1.

"Our problem is we've just been spending too much," California Senate Republican leader Dick Ackerman said in an interview. "Our income has gone up every year, but the rate of spending has gone up greater than the income."

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